

MINUTE ITEM

26. AGREEMENT SUPPLEMENTING DRILLING AND OPERATING CONTRACT, RICHFIELD OIL CORPORATION, PARCEL A, WILMINGTON FIELD, LOS ANGELES COUNTY - L.B.W.O. 10,152.

The Executive Officer recommended that, in view of serious legal questions which the office of the Attorney General had indicated should be refined in the format of the resolution, consideration by the Commission be deferred on Calendar Item No. 46 attached until such time as the staff can complete the necessary review to assure no future operating difficulties.

Mr. William E. Woodroof, Attorney for the Richfield Oil Corporation, stated that Richfield has a substantial amount of money involved and requested that this item definitely appear on the calendar for the November meeting of the Commission. Mr. Cranston indicated that everything possible would be done to assure early processing.

Attachment

Calendar Item 46 (2 pages)

CALENDAR ITEM

46.

AGREEMENT SUPPLEMENTING DRILLING AND OPERATING CONTRACT, RICHFIELD OIL CORPORATION, PARCEL A, WILMINGTON FIELD, LOS ANGELES COUNTY -L.B.W.O. 10,152.

The City of Long Beach has submitted for the approval of the State Lands Commission, in accordance with the provisions of Section 10(b), Chapter 29, Statutes of 1956, 1st E.S., an "Agreement Supplementing Drilling and Operating Contract dated March 12, 1947, Parcel A", between the City of Long Beach, Board of Harbor Commissioners of the City of Long Beach and Richfield Oil Corporation.

No provision was made in the initial drilling and operating contract for the installation and operation of gas or water-injection plant, or plants, or facilities, or for the drilling of wells for such purposes. As a result of engineering studies by the City, the drilling and operating contract was amended on May 23, 1953, so as to permit and provide for the installation and operation of gas or water-injection plant, or plants, and facilities for the drilling of injection wells, and for the reimbursement to the contractor for the reasonable and necessary costs incurred and expended.

The present drilling and operating contract states that Richfield shall not be obligated to continue such gas or water injection if, after a period of one year, the specified maximum percentage of reimbursement allowance is insufficient to meet reimbursable costs.

The actual cost of water-injection and repressuring operations in Parcel A, due to the accelerated repressuring program undertaken by the contractor at the request of the City, is far in excess of anticipated costs. The amount of reimbursement allowance has been insufficient to meet reimbursable costs for a period of more than one year.

The proposed amendment provides for an accelerated repayment to Richfield by increasing the maximum reimbursable allowance by superimposing an additional 21.55% allowance upon the present 34% ceiling. This additional 21.55% reimbursement can be utilized only for reimbursement of water-injection costs and when sufficient funds are not available within the 34%.

The agreement as proposed will give increased control to the City over its water-injection operations by requiring Richfield to drill, maintain, repair and operate injection wells in the manner prescribed by the Harbor Board. Currently no such obligation exists.

Additionally, the proposed amendment will eliminate the present provision whereby Richfield can cease water-injection operations when, for a period in excess of one year, the reimbursement allowance is not sufficient to meet reimbursable costs. However, Richfield will not be obligated to start new water-injection projects unless it is reasonably anticipated that they can be repaid within a period of three months.

CALENDAR ITEM 46. (CONTD.)

Richfield has indicated a willingness to continue water-injection operations if an upward adjustment in the percentage of reimbursement allowances relative to water-injection costs can be effected.

It is to the mutual benefit of Richfield, of the City of Long Beach and of the State that water-injection and repressuring operations be continued as an effective method of producing the maximum quantity of oil.

The effective date of the proposed amendment shall be when executed by the City of Long Beach and its Board of Harbor Commissioners after approval by the State Lands Commission. The term would expire concurrently with the original Drilling and Operating Contract which expires February 12, 1972.

The Board of Harbor Commissioners adopted a motion approving the proposed amendment at its meeting of August 17, 1961, and the City Council adopted a similar motion at its meeting of September 5, 1961.

The office of the Attorney General has stated that the proposed amendment is legally unobjectionable, and that the State Lands Commission may properly approve the amendatory agreement.

IT IS RECOMMENDED THAT THE COMMISSION, PURSUANT TO SECTION 10(b), CHAPTER 29, STATUTES OF 1956, 1ST E.S., APPROVE, AND AUTHORIZE THE EXECUTIVE OFFICER TO CERTIFY APPROVAL OF THE AGREEMENT SUPPLEMENTING DRILLING AND OPERATING CONTRACT DATED MARCH 12, 1947 (PARCEL A), BETWEEN THE CITY OF LONG BEACH AND ITS BOARD OF HARBOR COMMISSIONERS AS FIRST PARTIES, AND RICHFIELD OIL CORPORATION, AS SECOND PARTY, HERETOFORE APPROVED BY THE BOARD OF HARBOR COMMISSIONERS OF THE CITY OF LONG BEACH AND THE CITY COUNCIL OF THE CITY OF LONG BEACH. THIS APPROVAL IS SUBJECT TO FINAL ENGINEERING REVIEW AND AUDIT TO DETERMINE THAT THE STATE'S SHARE OF CUMULATIVE ROYALTY REVENUES FROM THE SUBJECT OPERATIONS SHALL BE NO LESS THAN THE CUMULATIVE ROYALTY AMOUNTS WHICH WOULD HAVE BEEN RECEIVED BY THE STATE HAD THE SUPPLEMENTAL AGREEMENT NOT BEEN APPROVED.